

THE WHITE HOUSE
WASHINGTON

46 % of all taxpayers have professional address

60% " " who itemize " " " "

14 brackets down to 3

11 to 50%.

IN THE STATE OF THE UNION ADDRESS, THE PRESIDENT SAID:

"TO TALK OF MEETING THE PRESENT SITUATION BY INCREASING TAXES IS A BAND-AID SOLUTION WHICH DOES NOTHING TO CURE AN ILLNESS THAT HAS BEEN COMING ON FOR HALF A CENTURY, TO SAY NOTHING OF THE FACT THAT IT POSES A REAL THREAT TO ECONOMIC RECOVERY
....

THERE IS A BETTER WAY: LET US GO FORWARD WITH AN HISTORIC REFORM FOR FAIRNESS, SIMPLICITY AND INCENTIVES FOR GROWTH. I AM ASKING SECRETARY DON REGAN FOR A PLAN FOR ACTION TO SIMPLIFY THE ENTIRE TAX CODE SO ALL TAXPAYERS, BIG AND SMALL, ARE TREATED MORE FAIRLY I HAVE ASKED THAT SPECIFIC RECOMMENDATIONS, CONSISTENT WITH THOSE OBJECTIVES, BE PRESENTED TO ME BY DECEMBER 1984."

AVERAGE RATES OF TAX ON FAMILY ECONOMIC INCOME UNDER CURRENT LAW AND THE PROPOSAL

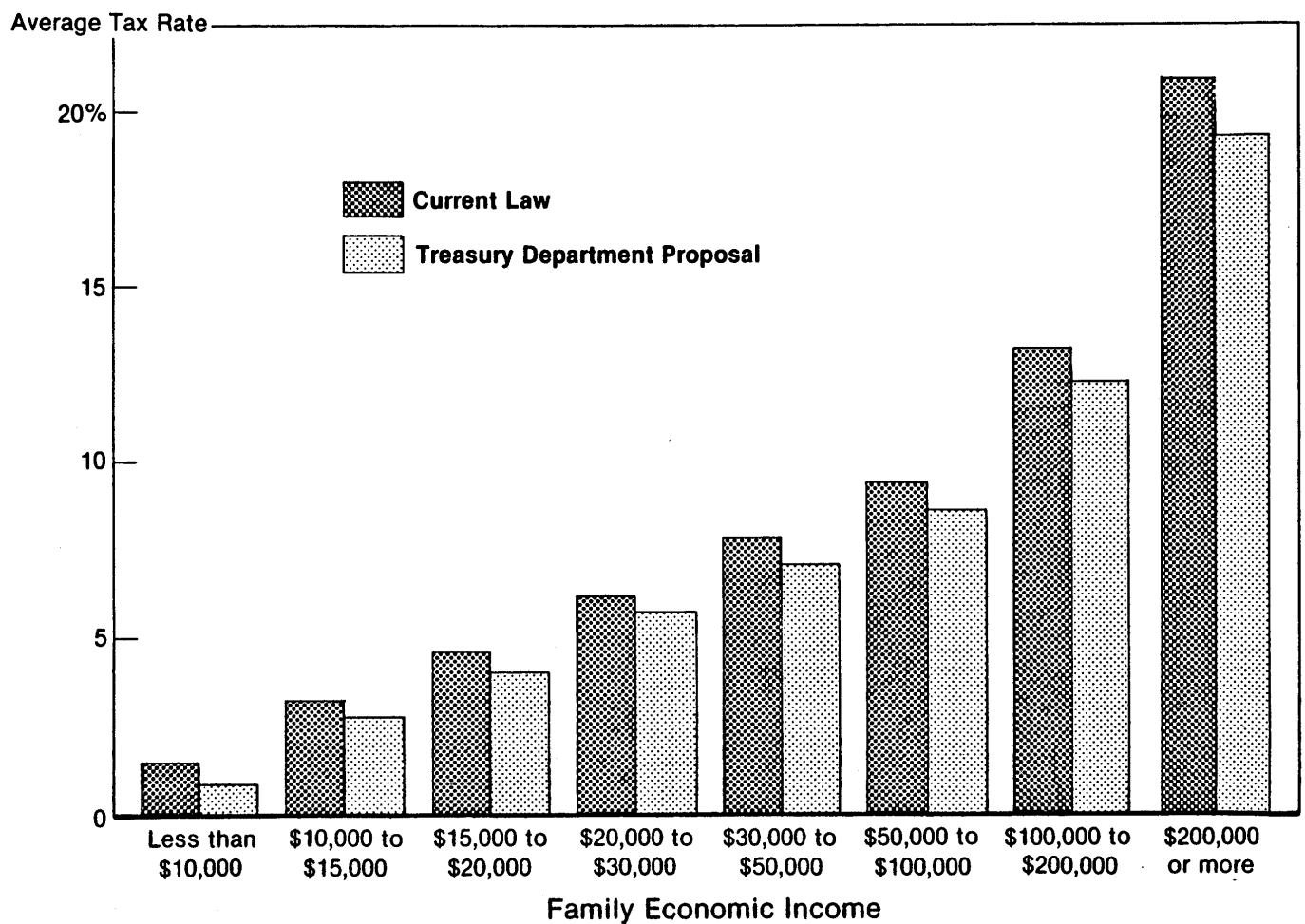
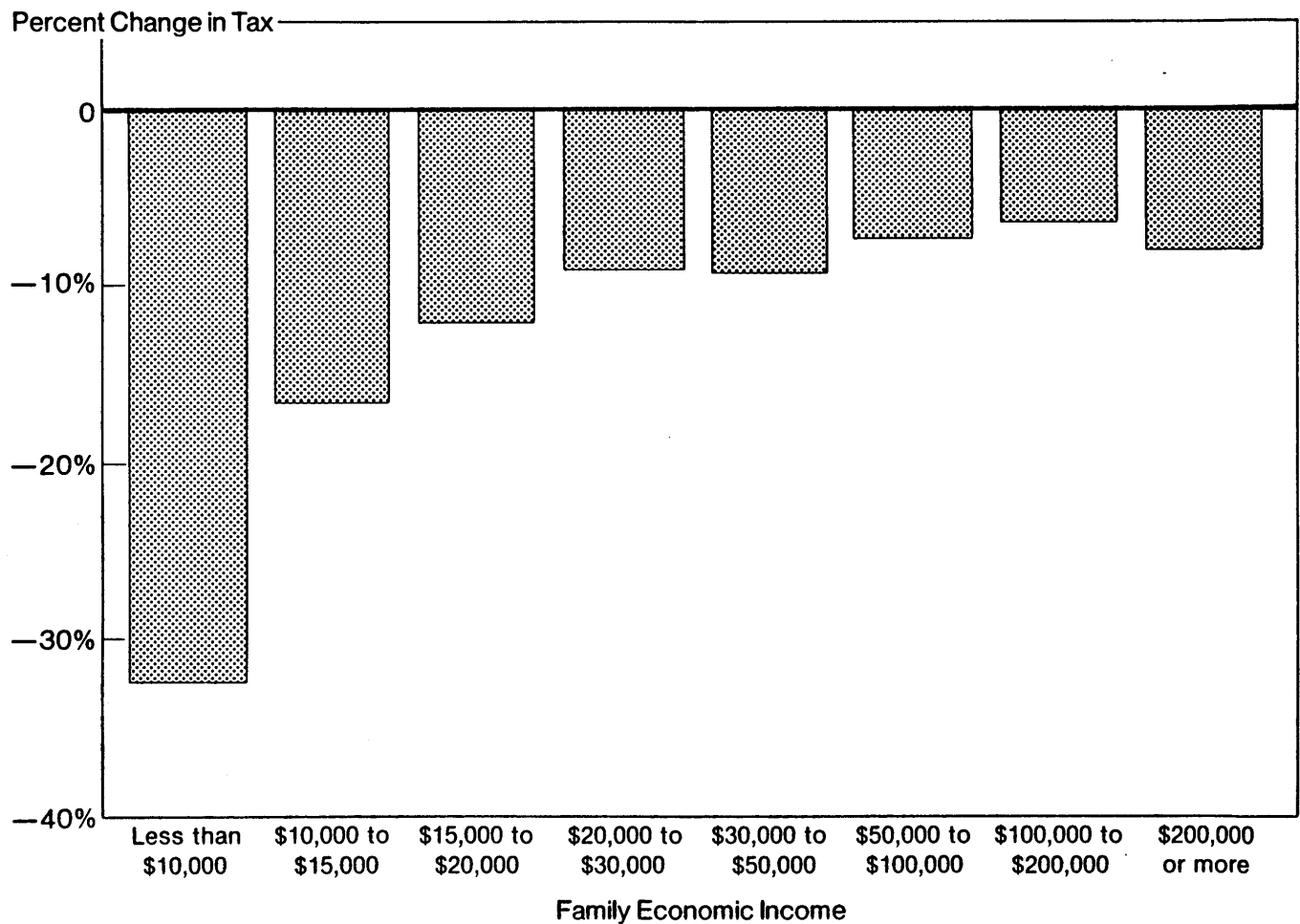
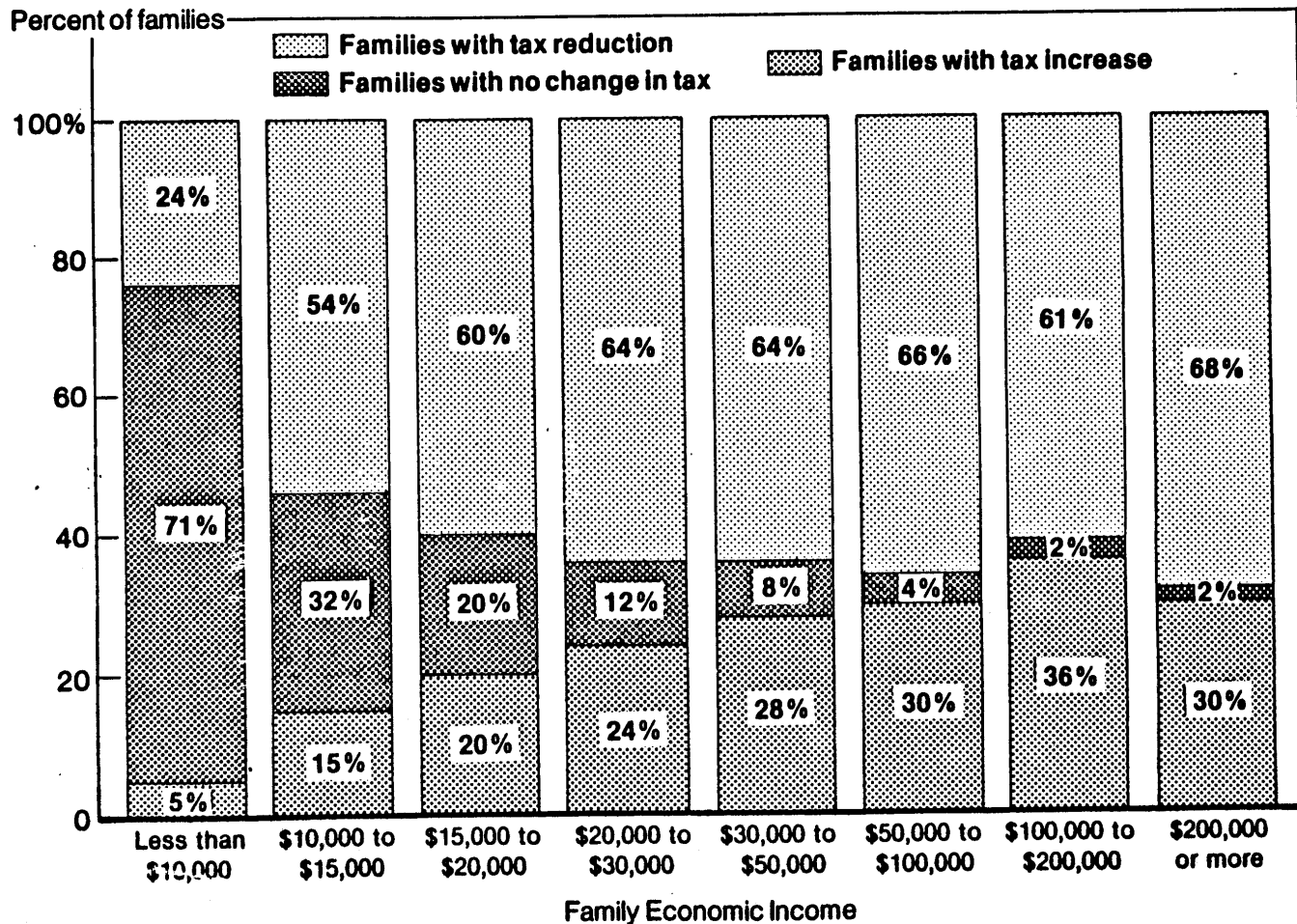


Figure 4-2

PERCENT CHANGE IN TAX UNDER THE PROPOSAL BY FAMILY ECONOMIC INCOME



FAMILIES WITH TAX CHANGE AS A PERCENT OF ALL FAMILIES BY FAMILY ECONOMIC INCOME



MARGINAL RATES OF TAX UNDER CURRENT LAW AND THE PROPOSAL

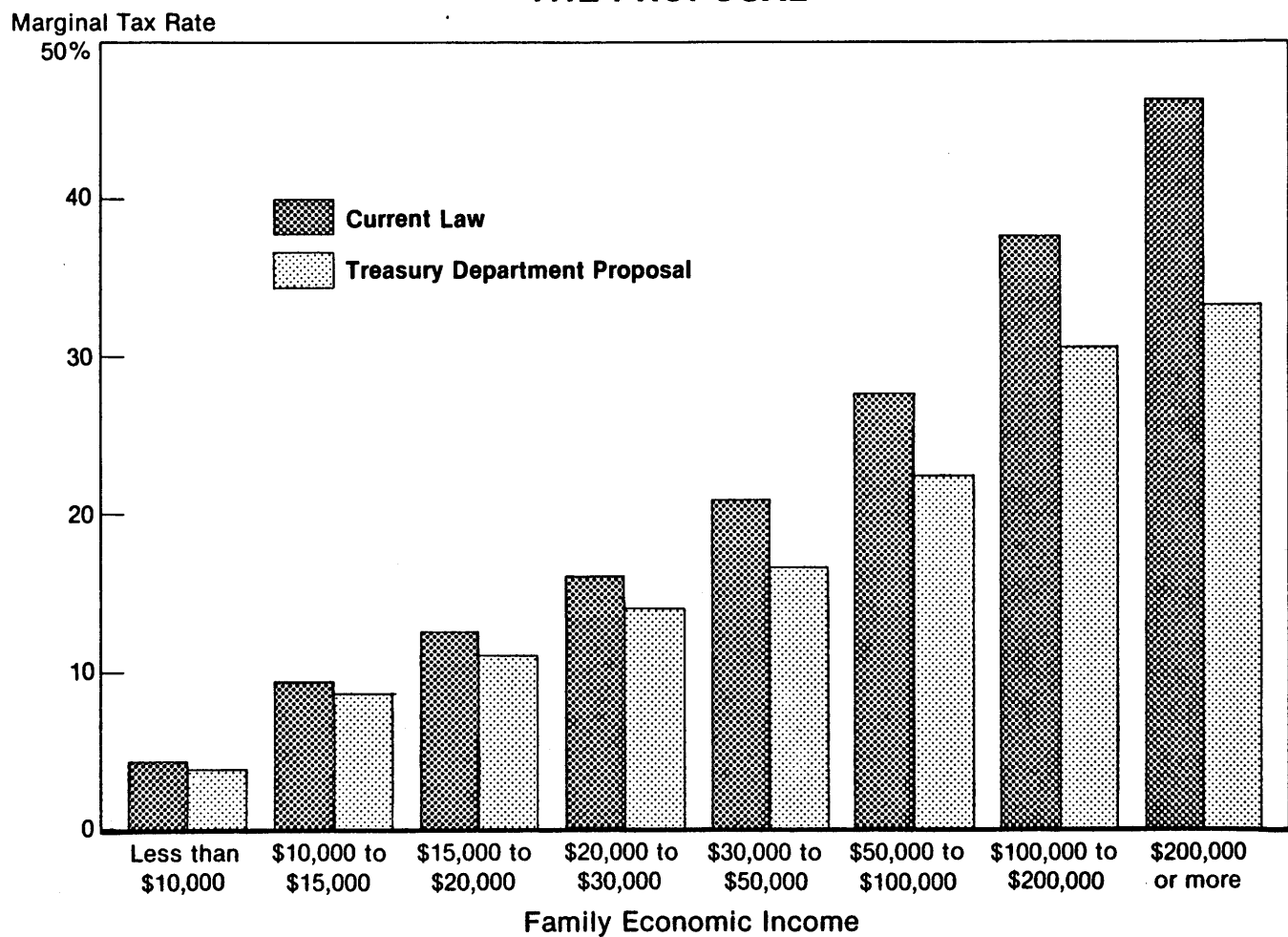


Figure 4-4

PERCENTAGE CHANGE IN TAXABLE INCOME RESULTING FROM THE TREASURY PROPOSAL

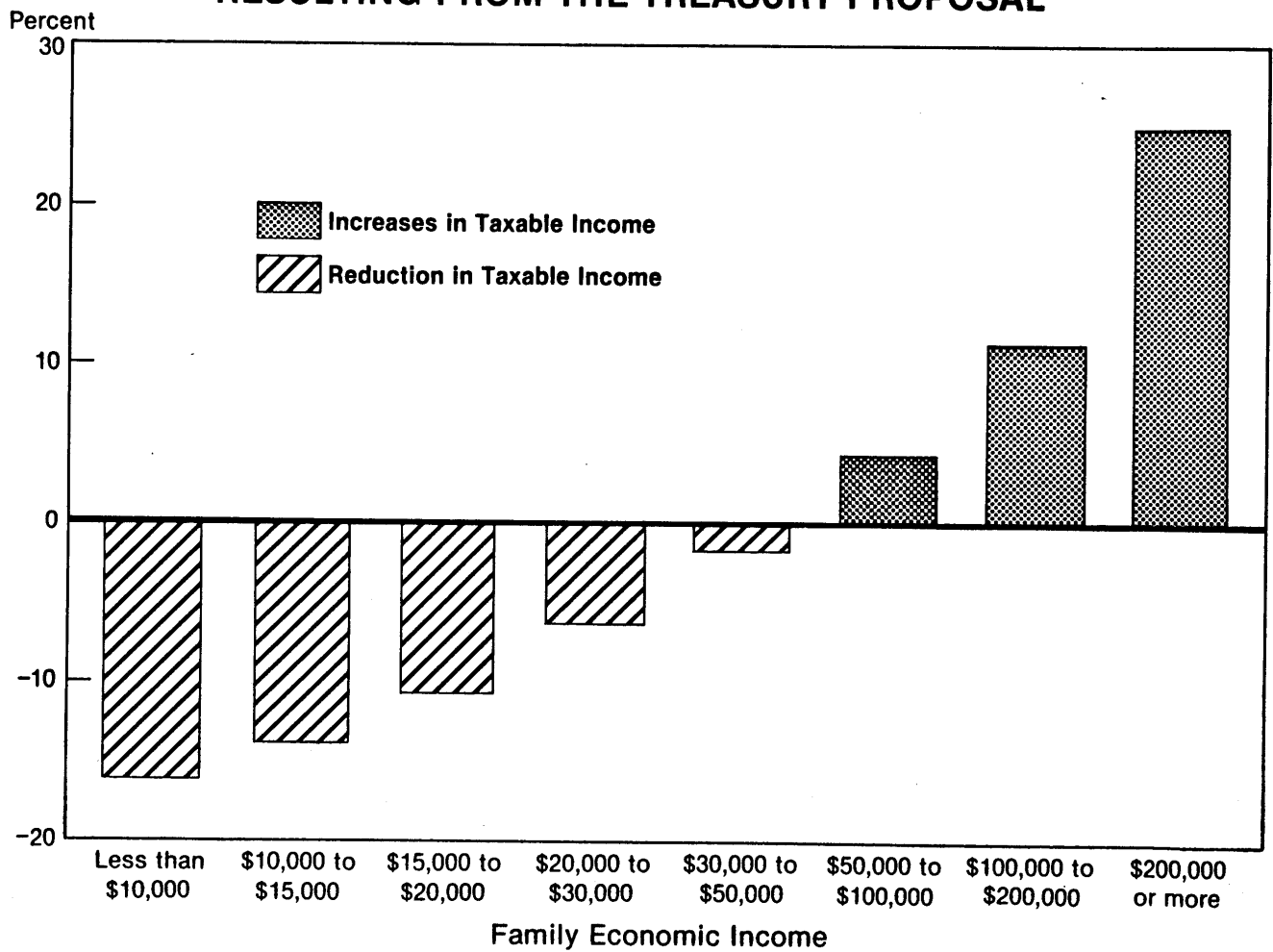


TABLE 4-2

Unified Budget Receipts

	Fiscal years				
	1986	1987	1988	1989	1990
(\$ Billions)					
Current service receipts: current law -- (Midsession Review of the 1985 budget)					
Individual.....	373.0	407.7	452.4	493.1	537.4
Corporate.....	87.9	102.7	111.6	117.0	122.6
Estate and gift.....	5.4	5.0	4.8	4.8	5.1
Excise.....	36.1	36.8	35.4	34.7	34.0
Total.....	502.5	552.2	604.2	649.6	699.2
Current service receipts: proposed law					
Individual.....	350.9	371.1	427.2	467.2	499.7
Corporate.....	110.1	133.3	141.0	155.1	167.4
Estate and gift.....	5.6	4.9	4.7	4.7	5.0
Excise.....	36.3	37.1	35.3	33.0	30.9
Total.....	503.0	546.5	608.1	659.9	703.0
Net effect of the proposal - total receipts.....	.5	-5.8	3.9	10.3	3.9
(Percent)					
Proposed law receipts as a percent of current law receipts					
Individual.....	94.1	91.0	94.4	94.7	93.0
Corporate.....	125.2	129.8	126.3	132.5	136.5
Estate and gift.....	104.1	98.1	97.8	97.7	98.4
Excise.....	100.6	100.9	99.7	95.0	90.9
Total.....	100.1	99.0	100.6	101.6	100.6

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Office of Tax Analysis

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Note: Details may not add to totals due to rounding.

Table 4-3

Distribution of Adjusted Gross Income, Taxable Income,
Income Tax, And Tax Rates Under Present Law And Under
The Tax Reform Proposal 1/

	Family Economic Income Class (in thousands) 2/								
	\$0 - 10	10 - 15	15 - 20	20 - 30	30 - 50	50 - 100	100 - 200	200 & over	All Income Classes
I. Percentage Distribution of:									
Adjusted Gross Income Under									
1. 1986 present law	1.7	4.1	5.7	14.3	28.4	31.7	8.2	6.0	100.0
2. Tax reform proposal	1.8	4.1	5.7	14.3	28.2	31.4	8.1	6.5	100.0
Taxable Income Under									
3. 1986 present law	1.5	3.9	5.6	14.6	28.9	31.6	8.1	6.0	100.0
4. Tax reform proposal	1.2	3.3	5.0	13.5	28.1	32.6	8.9	7.5	100.0
Tax Liability Under									
5. 1986 present law .....	.5	1.8	3.3	10.3	24.3	32.8	12.3	14.9	100.0
6. Tax reform proposal .....	.3	1.6	3.1	10.2	24.1	33.1	12.6	15.0	100.0
II. Percentage Change in									
7. Adjusted gross income	4.5	3.3	3.5	3.3	2.1	2.0	1.4	10.1	2.8
8. Taxable income	-16.3	-13.7	-10.5	-6.4	-1.8	4.4	11.2	24.9	1.0
9. Tax liability	-32.5	-16.6	-12.1	-9.1	-9.3	-7.4	-6.4	-8.0	-8.5
III. Average Tax Rate Under									
10. 1986 present law	1.4	3.2	4.6	6.2	7.8	9.4	13.2	20.9	8.7
11. Tax reform proposal .....	.9	2.7	4.0	5.7	7.0	8.7	12.3	19.3	8.0
IV. Average Marginal Tax Rate									
12. 1986 present law	4.2	9.4	12.4	16.0	20.9	27.6	37.5	46.1	23.6
13. Tax reform proposal	3.7	8.5	11.0	14.0	16.5	22.1	30.5	33.2	18.9
14. Percentage change	-11.9	-9.6	-11.3	-12.5	-21.1	-19.9	-18.7	-28.0	-19.9

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- 1/ See Appendix 4-B for a listing of the tax reform provisions included in the analysis. Distributions are based on 1983 levels of income.
2/ Restricted to families with nonnegative income. See Appendix 4-A for description of economic income.

**Distribution of Families by Change in Tax as a Percent of Income
Comparing The Tax Reform Proposal With 1986 Present Law 1/**

Family Economic Income Class (in thousands) 2/

	\$0 - 10	10 - 15	15 - 20	20 - 30	30 - 50	50 - 100	100 - 200	200 & over	All Income Classes
I. Number of families with:									
Tax INCREASE as percent of income:									
More than 2 percent.....	303	625	691	1,138	1,013	904	286	80	5,040
1 to 2 percent.....	123	368	457	1,004	1,337	870	143	28	4,330
Less than 1 percent 3/.....	224	709	980	2,160	3,667	2,458	258	26	10,482
Tax DECREASE as percent of income:									
More than 2 percent.....	1,281	1,591	1,380	2,758	4,096	2,712	514	218	14,550
1 to 2 percent.....	905	1,505	2,482	4,162	4,453	2,716	301	41	16,565
Less than 1 percent 3/.....	1,096	3,136	2,597	4,379	5,082	3,780	347	40	20,457
No change in tax.....	9,779	3,715	2,115	2,031	1,638	617	44	8	19,947
Total, all families.....	13,712	11,649	10,702	17,633	21,286	14,057	1,894	441	91,374
II. Percent of Families with:									
Tax INCREASE as percent of income:									
More than 2 percent.....	2.21	5.36	6.45	6.45	4.76	6.43	15.10	18.02	5.52
1 to 2 percent.....	.90	3.16	4.27	5.69	6.28	6.19	7.54	6.43	4.74
Less than 1 percent 3/.....	1.64	6.09	9.16	12.25	17.23	17.48	13.63	5.94	11.47
Total with tax increase.....	4.75	14.61	19.88	24.39	28.27	30.10	36.27	30.39	21.73
Tax DECREASE as percent of income:									
More than 2 percent.....	9.34	13.66	12.89	15.64	19.24	19.30	27.12	49.41	15.92
1 to 2 percent.....	6.60	12.92	23.20	23.61	20.92	19.32	15.91	9.40	18.13
Less than 1 percent 3/.....	7.99	26.92	24.27	24.84	23.87	26.89	18.35	9.01	22.39
Total with tax decrease.....	23.93	53.50	60.36	64.09	64.03	65.51	61.38	67.82	56.44
No change in tax.....	71.32	31.89	19.76	11.52	7.70	4.39	2.35	1.79	21.83
Total, all families.....	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

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- 1/ See Appendix 4-B for a listing of the tax reform provisions included in the analysis. Distributions are based on 1983 levels of income.
- 2/ Restricted to families with nonnegative income. See Appendix 4-A for description of economic income.
- 3/ Families with tax changes of less than 0.05 percent of their income were considered to have only a negligible tax change and were therefore excluded from the tax-change groupings.

Table S-1
Comparison of Tax Rates Under Current Law and Proposal for 1986

Single Returns			Head of Household Returns			Joint Returns		
Taxable income	Marginal tax rate		Taxable income	Marginal tax rate		Taxable income	Marginal tax rate	
: Current	: Law 1/	: Proposal	: Current	: Law 1/	: Proposal	: Current	: Law 1/	: Proposal
(percent)	(percent)		(percent)	(percent)		(percent)	(percent)	
Less than \$ 2,800	0-11	0	Less than \$ 3,500	0-11	0	Less than \$ 3,800	0-11	0
\$2,800 to 19,300	11-23	15	\$3,500 to 25,000	11-24	15	\$3,800 to 31,800	11-25	15
\$19,300 to 38,100	23-38	25	\$25,000 to 48,000	24-35	25	\$31,800 to 63,800	25-38	25
\$38,100 or more	38-50	35	\$48,000 or more	35-50	35	\$63,800 or more	38-50	35

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1/ Estimated.

Table S-2

Comparison of Tax Rates Under Current Law and Proposal for 1986*

Single Returns				Head of Household Returns				Joint Returns			
		Marginal tax rate				Marginal tax rate				Marginal tax rate	
Taxable	Current			Taxable	Current			Taxable	Current		
income	Law 1/	Proposal		income	Law 1/	Proposal		income	Law 1/	Proposal	
Less than \$2,510	0			Less than \$2,510	0			Less than \$3,710	0		
2,510 - 3,710	11		0	2,510 - 4,800	11		0	3,710 - 6,000	11		0
3,710 - 4,800	12			4,800 - 7,090	12			6,000 - 8,290	12		
4,800 - 7,090	14			7,090 - 9,490	14			8,290 - 12,990	14		
7,090 - 9,280	15			9,490 - 12,880	17			12,990 - 17,460	16		
9,280 - 11,790	16	15		12,880 - 16,370	18	15		17,460 - 22,040	18	15	
11,790 - 14,080	18			16,370 - 19,860	20			22,040 - 26,850	22		
14,080 - 16,370	20			19,860 - 25,650	24			26,850 - 32,630	25		
16,370 - 19,860	23			25,650 - 31,430	28			32,630 - 38,410	28		
19,860 - 25,650	26	25		31,430 - 37,210	32	25		38,410 - 49,980	33	25	
25,650 - 31,430	30			37,210 - 48,780	35			49,980 - 65,480	38		
31,430 - 37,210	34			48,780 - 66,130	42			65,480 - 93,420	42		
37,210 - 45,290	38			66,130 - 89,270	45			93,420 - 119,390	45		
45,290 - 60,350	42	35		89,270 - 118,190	48	35		119,390 - 177,230	49	35	
60,350 - 89,270	48			118,190 or more	50			177,230 or more	50		
89,270 or more	50										

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Office of Tax Analysis

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1/ Estimated.

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Table 6-1

**Effective Tax Rates on Realized Capital Gains
Under Current Law for 50 Percent Bracket Taxpayer
With Different Real Rate of Return Assumptions**

Inflation Rate (Percent)	: Nominal : Appreciation : Rate : (Percent)	: Holding Period in Years						:
		:	:	:	:	:	:	
		:	1	3	5	10	20	:
CONSTANT 4 PERCENT REAL RATE OF RETURN								
0	4		20.0	20.0	20.0	20.0	20.0	
2	6		30.0	29.4	28.9	27.7	25.6	
3	7		35.0	34.0	33.1	31.0	27.8	
4	8		40.0	38.5	37.1	34.1	29.6	
6	10		50.0	47.3	44.9	39.7	32.5	
8	12		60.0	55.9	52.0	44.5	34.7	
10	14		70.0	64.0	58.8	48.6	36.3	
12	16		80.0	71.9	65.1	52.1	37.6	
CONSTANT 7 PERCENT REAL RATE OF RETURN								
0	7		20.0	20.0	20.0	20.0	20.0	
2	9		25.7	25.2	24.9	23.8	22.4	
4	11		31.4	30.3	29.1	27.1	24.1	
5	12		34.3	32.8	31.4	28.5	24.7	
6	13		37.1	35.2	33.4	29.9	25.3	
7	14		40.0	37.5	35.4	31.1	25.8	
8	15		42.9	39.9	37.3	32.2	26.3	
10	17		48.6	44.5	41.0	34.4	27.0	
12	19		54.3	48.9	44.4	36.3	27.6	

Note: Figures in bold face type below the broken line indicate combinations of inflation rates and holding periods for which the proposed treatment is more favorable than current law.

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Table 6-3
Effective Tax Rates on Equity Financed Investments in Equipment
and Structures by Industry with Various Rates of Inflation
for a 46 Percent Taxpayer Under Current Law

Industry	Inflation Rate (percent)	
	5	10
Agriculture	29	37
Mining	13	31
Logging	21	34
Wood products and furniture	28	38
Glass, cement and clay	20	31
Primary metals	16	28
Fabricated metals	28	38
Machinery and instruments	26	36
Electrical equipment	26	38
Motor vehicles	8	26
Transportation equipment	25	36
Food	25	35
Tobacco	18	30
Textiles	19	32
Apparel	28	38
Pulp and paper	12	26
Printing and publishing	22	34
Chemicals	19	32
Petroleum refining	12	26
Rubber	18	30
Leather	30	40
Transport services	9	26
Utilities	28	38
Communications	19	33
Service and trade	31	40

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Table 6-5

Effective Corporate Income Tax Rates
--Returns Distributed Equally Between Dividends and Capital Gains-- 1/

	<u>All Capital</u> 2/	<u>Equipment and Structures</u>	<u>Equipment</u>	<u>Structures</u>	<u>Inventories</u> 3/
Pre-1981 law 4/					
at 10 percent inflation	48	48	31	53	46
ACRS 5/					
With investment tax credit					
at 10 percent inflation	41	39	20	45	46
at 5 percent inflation	35	31	-4	39	46
Without investment tax credit					
at 5 percent inflation	41	39	41	39	46
Real economic depreciation 6/					
Without dividend relief 7/	33	33	33	33	33
With dividend relief 8/	27	27	27	27	27

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November 21, 1984

See Footnotes for Table 6-4.